



Growth  
Commission



Philippe Aghion  
Tim Besley  
John Browne  
Francesco Caselli  
Richard Lambert  
Rachel Lomax  
Chris Pissarides  
Nick Stern  
John Van Reenen

# Investing for Prosperity

**Skills, Infrastructure and Innovation**  
**Report of the LSE Growth Commission**

in partnership with

**INSTITUTE  
FOR  
GOVERNMENT**

**CENTRE for ECONOMIC  
PERFORMANCE**

## **LSE Growth Commission**

**Presentation to OECD by**

**John Van Reenen & Nicholas Stern**

**OECD – 16 April 2013**

# SET UP (IN JAN 2012)

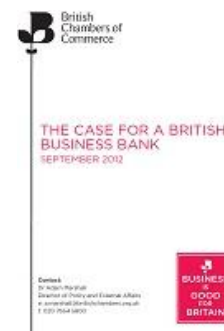
IN PARTNERSHIP WITH THE INSTITUTE FOR GOVERNMENT

- Co-Chairs Tim Besley & John Van Reenen
- Financed by HEIF 5 and ESRC
- Commissioners:
  - Philippe Aghion
  - Lord John Browne
  - Francesco Caselli
  - Sir Richard Lambert
  - Rachel Lomax
  - Lord Nick Stern
  - Nobel Laureate Chris Pissarides



# WHY AN LSE GROWTH COMMISSION?

- Long-term structural issues - beyond debates about austerity
- Political economy: why things have not been fixed before? What institutions could be built to last?



# **The Economic Story of the UK**

Human Capital

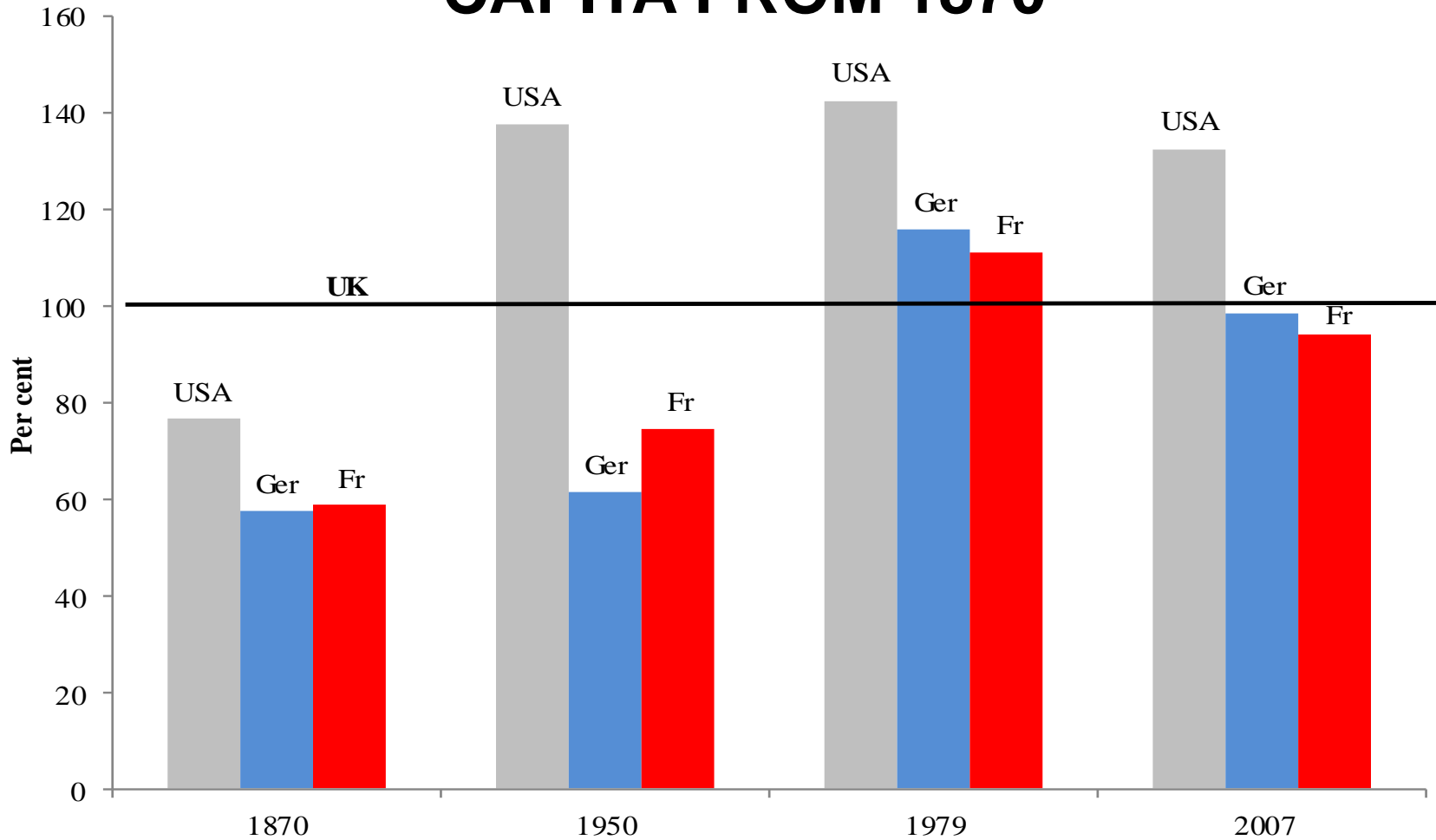
Innovation & investment

Infrastructure

Measuring Progress

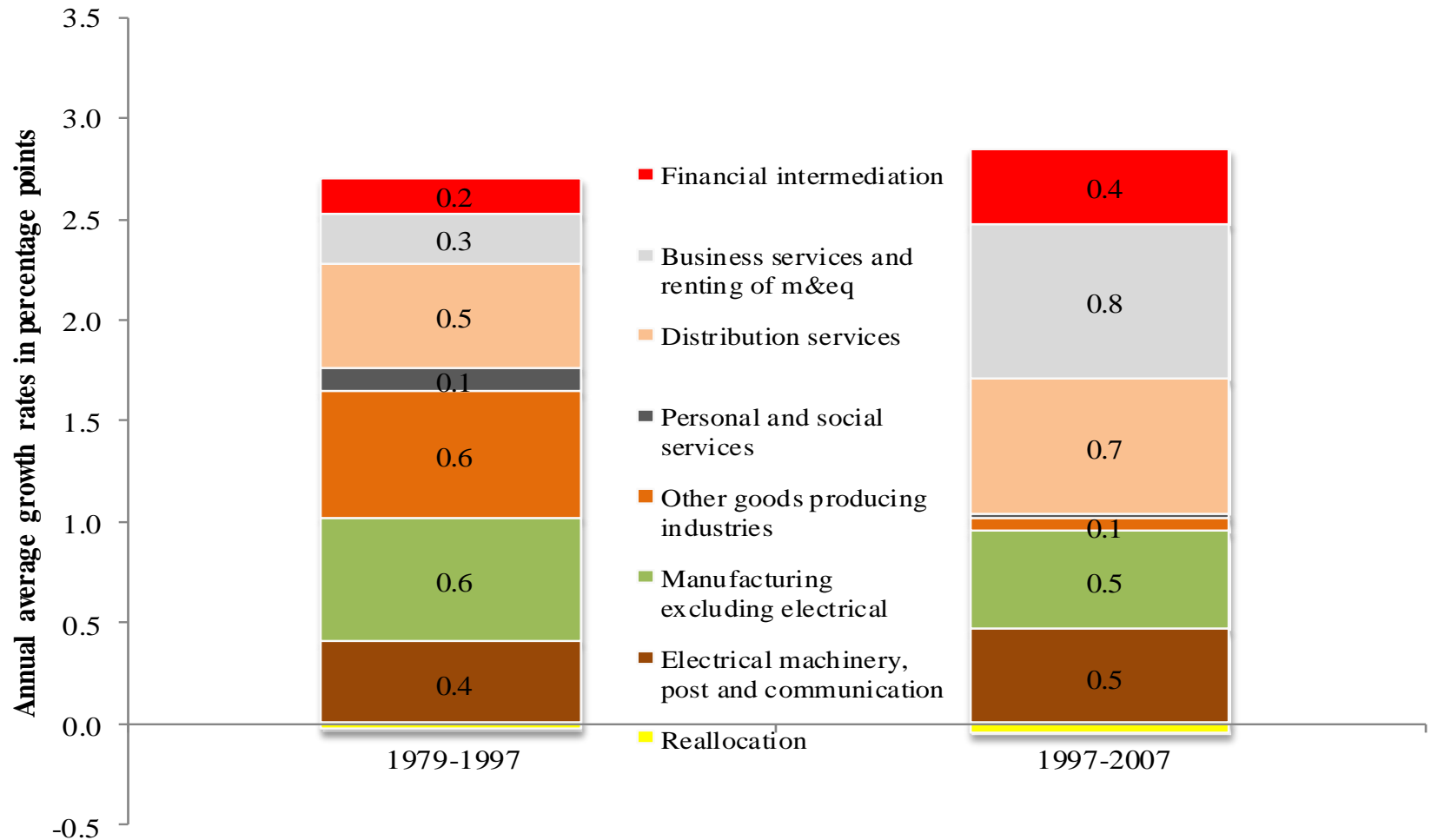
Conclusions

# DECLINE AND REBOUND: RELATIVE GDP PER CAPITA FROM 1870



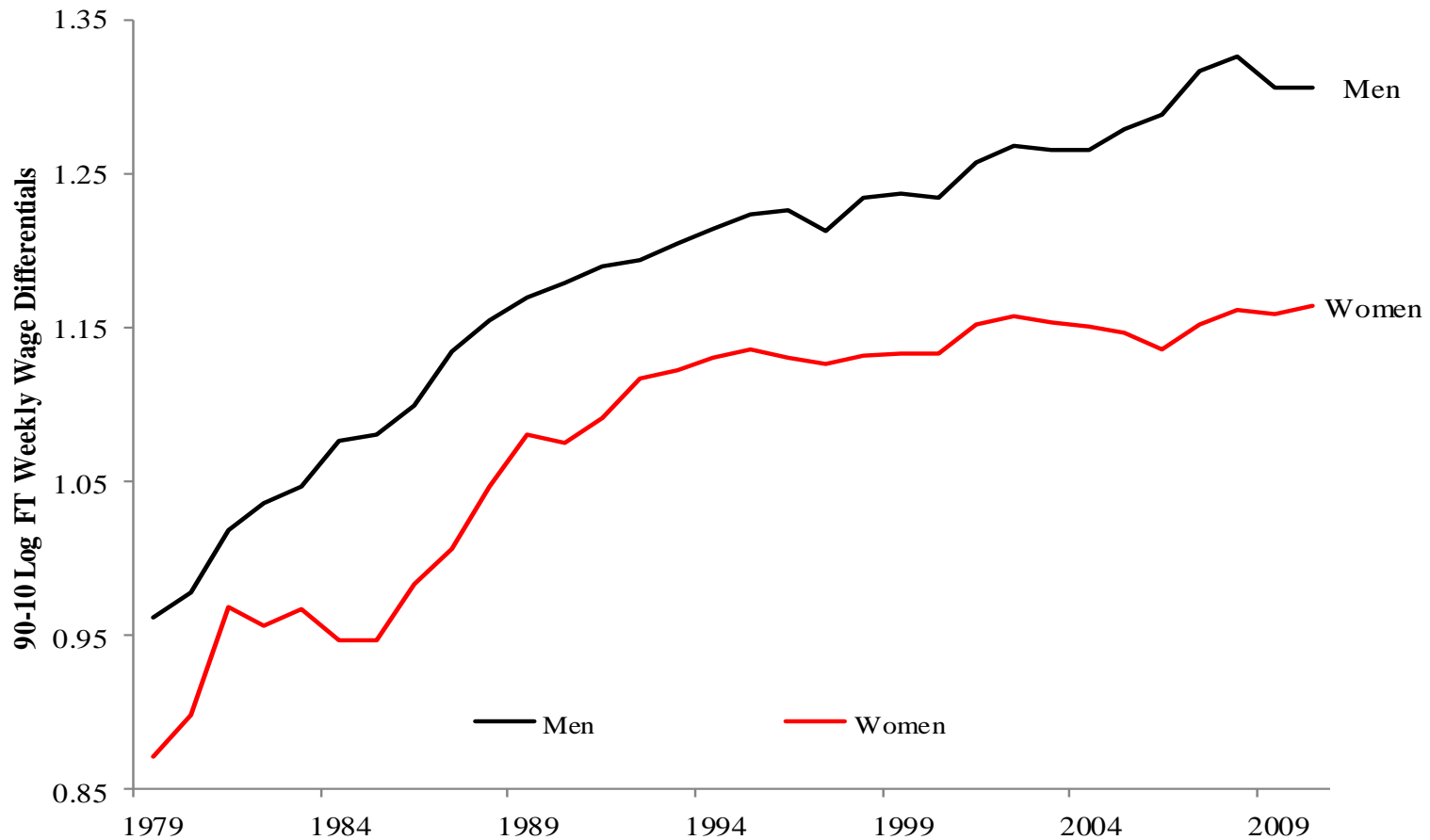
**Source:** LSE Growth Commission

# PRODUCTIVITY GROWTH (GDP PER HOUR) : IT WASN'T ALL FINANCE



**Source:** LSE Growth Commission

# THE INEQUALITY CHALLENGE: GROWING WAGE DIFFERENCES



**Source:** LSE Growth Commission

# WHAT WORKED

- **Policy Changes**
  - Competition/privatisation policy; flexible labour markets; increases in university education; Openness to FDI & immigration
- **Institutional innovation**
  - Competition Commission & OFT; NICE; Bank of England MPC; OBR; MAC, LPC, NPRB

# WHAT DIDN'T WORK

- Policy failures
  - short-term political horizons; adversarial politics; lack of independent expert advice & evaluations
- Outcome is structural weaknesses in skills, infrastructure and investment in innovation

# The Economic Story of the UK

## **Human Capital**

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# WHY HUMAN CAPITAL MATTERS

- **Strong relationship between skills & growth**
  - “Double Dividend”: boosts growth & reduces inequality
- **Some UK problems**
  - Mediocre test scores (e.g. OECD PISA)
  - “Long tail” of underachievement
  - Steep socio-economic gradient

# 1. `FLEXIBLE ECOLOGY' FOR SCHOOLS

Spread better teaching practices:

- School **autonomy**
- Strengthened **accountability**
- Wider parental **choice**
- **Flexibility** in entry and exit

## 2. TACKLING DISADVANTAGE

Current focus on average, not on “long tail” of disadvantage

- **Information** on performance across the distribution  
(e.g. League Tables)
- Ofsted **Inspection**
- Revise floor **targets**
- Expansion of **sponsored** academies in  
disadvantaged areas

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# INVESTMENT AND INNOVATION

- **Low investment as a share of GDP**
  - heavily weighted towards property and buildings
- **Weak intangible investment**
  - Low R&D & patent intensity
  - Poor management quality
- **Financing gaps affecting start-ups and SMEs**
- **Aggravated by lack of skills & infrastructure**
- **Short-termism in Finance: competition weak in retail banking**

# PROPOSALS

- **Increase competition in retail/SME banking**
  - Account switching; banking license
  - Referral to Competition & Markets Authority
- **Business Bank to focus on innovative start-ups**
  - Independent board
  - Focus on innovation investments
  - SME securitisation

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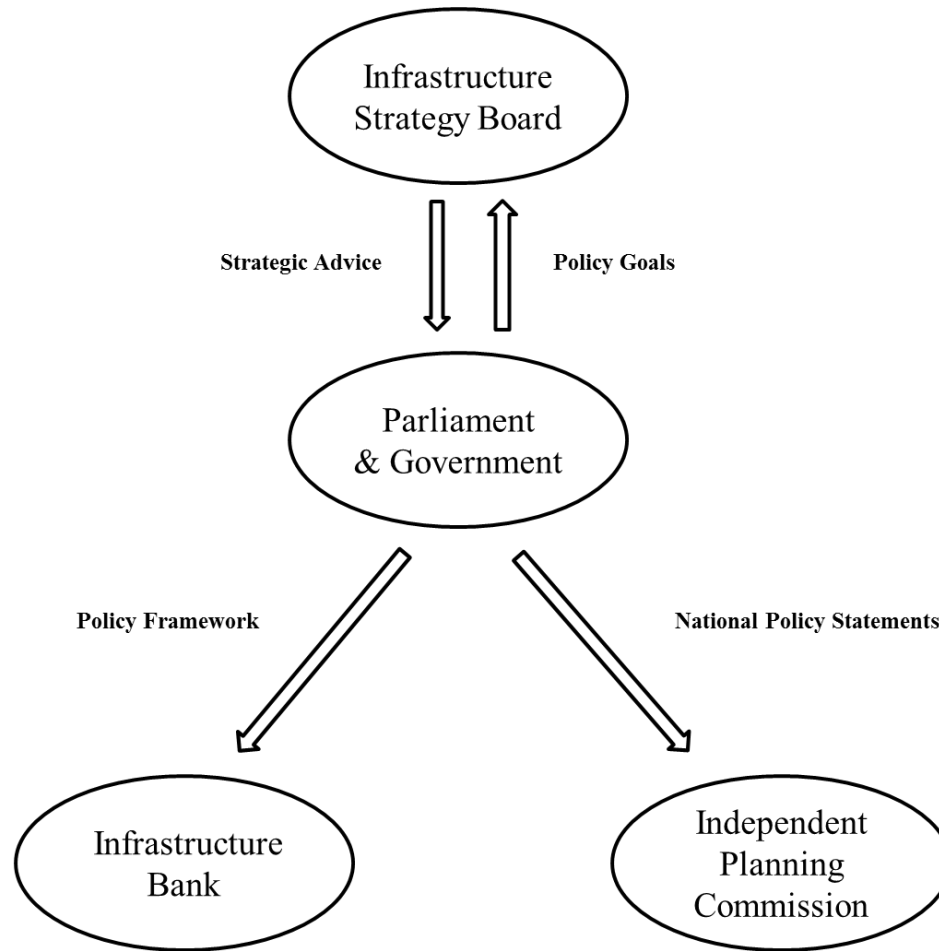
# INFRASTRUCTURE

- **Problem areas**
  - Transport (roads, aviation, rail)
  - Energy
- **Government induced policy risk**
  - Lack of clear sense of strategy – uncertainty
  - Vacillation in and politicisation of policies and projects
- **Rigid planning framework**
  - Rationale with little economic content
  - Limited scope to share benefits
- **Rigid and misleading public accounting conventions**

# NEW INSTITUTIONAL ARCHITECTURE

- **Infrastructure Strategy Board**
  - Independent expert advice
  - Accountable to Parliament
  - Foundation for cross-party consensus
- **Infrastructure Planning Commission**
  - Delivery – planning implications
  - Share benefits of development
  - No ministerial veto
- **Infrastructure Bank**
  - Reduce policy risk to encourage private sector investment
  - Develop sector-specific skills in new areas
  - Catalytic/multiplier effects on private investment

# PROMOTING CONFIDENCE AND TRANSPARENCY



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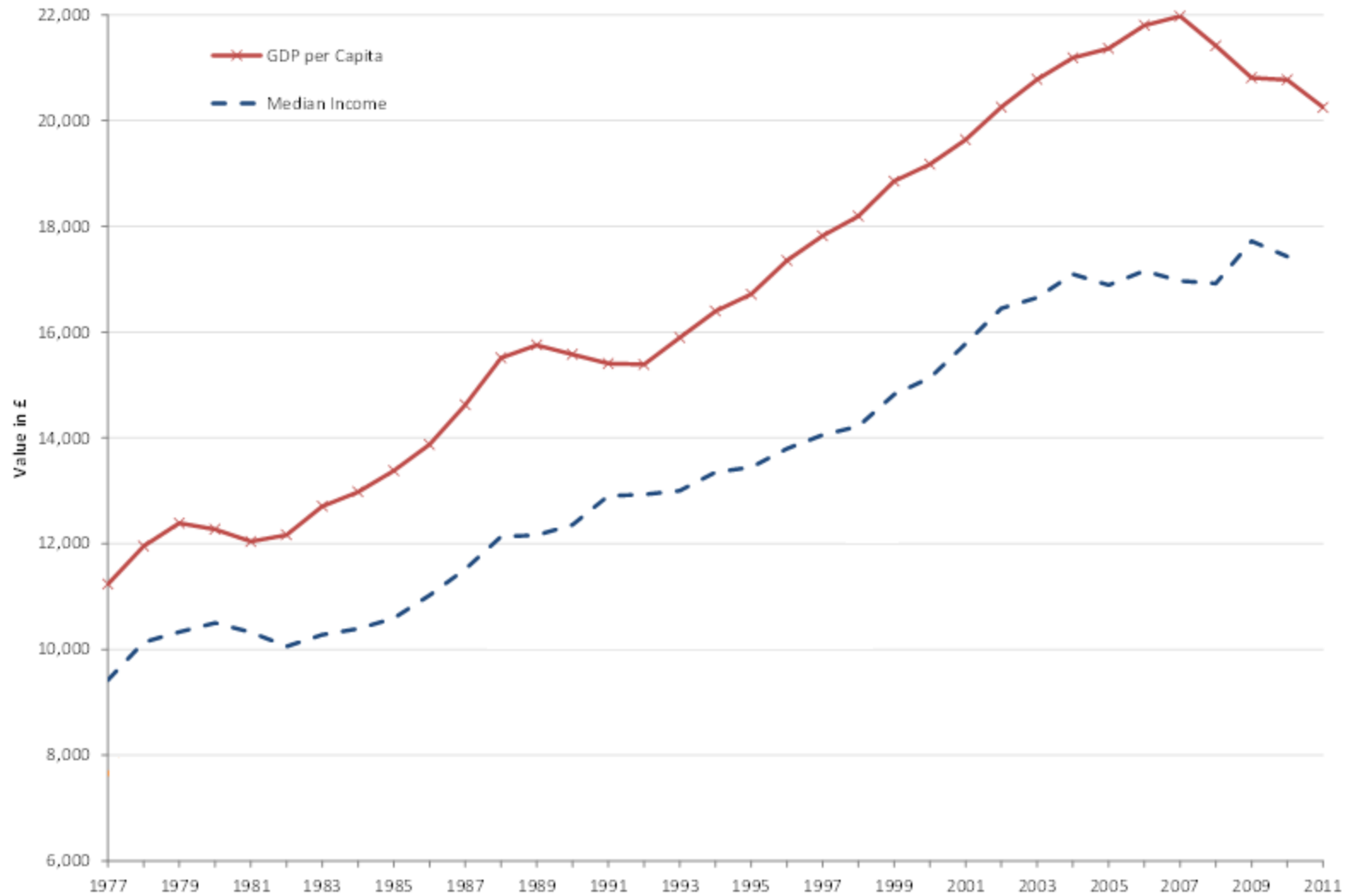
**Measuring Progress**

Conclusions

# MEASURING PERFORMANCE

- Exclusive focus on GDP not helpful
  - Increases even if most people are left behind
  - Measures production not income
- Greater focus on Median Household Income
  - Captures what happens in the core of the population
  - Focuses on income
  - Focuses on families
- And yet, no single indicator captures all aspects of wellbeing.

# MEDIAN INCOME AND GDP PER CAPITA



Source: ONS

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**Conclusions**

# Conclusions

## **Build institutions that put politics in the right place**

- Making strategic choices
- Setting high level objectives
- Holding executive bodies to account

## **supported by**

- More capability at the centre of government
- A bipartisan commitment to evidence based policy

## **Effective action requires sustained cross party commitment:**

- to tackle the key problems holding back long term growth
- to develop the institutions needed to create a stable long term policy framework

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**Thank You**